

# Executive Summary

Senate Bill 407, enacted in the 2003 legislative session, made significant revisions to Montana's individual income tax system. The changes became effective in the 2005 tax year. Our study of actual 2005 tax returns reveals the following conclusions.

- The total amount of tax reduction granted by this legislation was almost four times greater than estimated at the time of enactment: \$100.3 million vs. the 2003 prediction of \$26 million.
- Higher income taxpayers received more tax reduction than predicted, and lower income taxpayers received less. Households earning \$500,000 or more annually received 47.7% of the tax reduction as compared to the 22.9% share predicted in 2003. These are the details:

Annual incomes less than \$65,000: This income range includes 81% of Montana households (320,942 households). These households received 7.2% of the reduction: \$7.2 million or approximately \$23 dollars for each household. The tax reduction for these households is about 12% less than the \$8.2 million predicted in 2003.

Annual incomes between \$65,000 and \$150,000: This income range includes 15.9% of Montana households (63,015 households). These households received 16.9% of the reduction: \$17.0 million or \$269 for each household. The tax reduction for these households is approximately 194% greater than the \$5.8 million predicted in 2003.

Annual incomes between \$150,000 and \$500,000: This income range includes 2.6% of Montana households (10,460 households). These households received 28.2% of the reduction: \$28.3 million or \$2,705 per household. The tax reduction for these households is approximately 365% greater than the \$6.1 million predicted in 2003.

Annual incomes of \$500,000 and up: This income range includes 0.4% of Montana households (1,567 households). These households received 47.6% of the tax reduction: \$47.8 million or \$30,499 per household. The tax reduction for these households is 701% greater than the \$6 million predicted in 2003.

- The majority of households—65% or about two-thirds—experienced only a small change (less than \$50) in their tax. The other third either received a tax cut of \$50 or more (29% of households) or paid at least \$50 more (6% of households).
  - Who received the tax cuts of \$50 or more? Only at income levels of \$70,000 or more did a majority of households see a tax reduction of at least \$50, with the percentage rising steadily to 94% for households with incomes of at least \$500,000.
  - Who paid at least \$50 more in taxes? The percentage of households paying at least \$50 more is highest (20%) for households with incomes between \$60,000 and \$75,000.
- To put these numbers in context, the average tax relief for the 1586 households earning \$500,000 or more, \$30,499, is greater than the \$29,150 average annual pay of Montana jobs covered by workers compensation, as reported by the Bureau of Labor Statistics.

